Action Committee on the Rural Economy

FINAL REPORT
of the
Business Development Subcommittee

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MEMBERS

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Resource Team – Saskatchewan Agriculture, Food and Rural Revitalization:

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RECOMMENDATIONS

1. Rationalization of Rural Economic Development Programs and Delivery System

ACRE recommends that the Government of Saskatchewan work with the Government of Canada, and with municipal governments in Saskatchewan, to create a Task Force that will:

a) examine the programs and services offered for rural economic development from the three levels of government with the aim of reducing the number and improving the effectiveness of those programs and services; and
b) examine the rural economic development service delivery system with the aim of eliminating the overlapping mandates and jurisdictions and of improving the effectiveness of that delivery system.

2. Saskatchewan Equity Investment Tax Deferral Program

ACRE recommends that the Government of Saskatchewan work with the Government of Canada to develop a substantial source of equity funding by implementing a Saskatchewan Equity Investment Tax Deferral Program, which will make any Saskatchewan resident or corporation who wishes to defer taxes eligible to invest in our province's rural economic development.

3. Creating an "Angel" Investor Network

ACRE recommends that the Government of Saskatchewan encourage and provide support to Saskatchewan's economic development associations to examine the potential of an "angel" investment network to increase equity funding available to rural Saskatchewan businesses.

4. Mentorship / Governance

ACRE recommends that the Government of Saskatchewan build on existing business groups, programs, and resources, (e.g., Chambers of Commerce, Women Entrepreneurs, Saskatchewan Council for Community Development, etc.) to create an effective network of leaders and mentors. As well, resources need to be provided that will ensure that community boards and entrepreneurs have access to the information necessary to implement effective governance systems.

5. Liquidity of Community and Business Investments

ACRE recommends that the Government of Saskatchewan facilitate the initiatives necessary to improve the liquidity of investments in community projects and businesses in rural Saskatchewan.

6. Taxation

ACRE recommends that the Government of Saskatchewan:

a) replace the current tax credit program on capital purchases used for manufacturing and processing with a PST exemption program; and
b) develop and make public a plan for:
   - the systematic elimination of the Corporate Capital Tax, and
   - the staged reduction of the Corporate Income Tax to ensure Saskatchewan's businesses can stay competitive with those in other provinces.

7. Simplifying the Regulatory Process

ACRE recommends that the Government of Saskatchewan simplify and develop an integrated approach (preferably a one-window contact) for the business development approval process from project conception through the start-up of the enterprise.

8. Affordable Insurance

ACRE recommends that the Government of Saskatchewan mandate Saskatchewan Government Insurance to aggressively develop the partnerships and the policies that will allow affordable insurance packages to meet the needs of Saskatchewan's rural businesses.

9. Support for the Proposed "Saskatchewan Works Fund"

ACRE recommends that the Government of Saskatchewan provide seed money and facilitate the implementation of the "Saskatchewan Works Fund," as proposed by Saskatchewan Agrivision Corporation (SAC) and the Saskatchewan Federation of Labour, because this proposal recognizes the needs of rural businesses and will provide a source of capital investment for rural economic development that is not being met by other funding mechanisms.

SUBCOMMITTEE ACTIVITIES

Purpose of Subcommittee

"The Subcommittee will focus on the tools, strategies and skills required by business to be successful in rural Saskatchewan"

The Subcommittee met eight times and had one conference call between its inaugural meeting on September 10, 2003, and its final approval of the wording of the recommendations on October 26, 2004.

Groups/Individuals consulted:

- Larry Hayes and Vern Rourke – Farm Credit Corporation
- Lester Lafond – Lafond Insurance & Financial Services; Federation of Saskatchewan Indian Nations
- Van Isman – Saskatchewan Industry and Resources
- Ryan Bater – Battlefords REDA
- Gil Assie – Accountant/Consultant with Meyers Norris Penny; Saskatchewan Agrivision Corporation
- Paul Grant – Lawyer and Solicitor, McKercher, McKercher & Whitmore; Saskatchewan Agrivision Corporation
- Diana Matsuda – Canada-Saskatchewan Business Service Centre
- Wally Lorenz – Mayor of Wilkie
- Margaret Skinner – Shareholder and Board Member, West Central Pelleting Ltd.
- Doug Elliott – Sask Trends Monitoring
- Eric Johnson – Immigration Branch, Government Relations and Aboriginal Affairs
- Doreen Bradshaw – Aboriginal Affairs Division, Government Relations and Aboriginal Affairs
- Mark Partridge – Canada Research Chair, New Rural Economy at the University of Saskatchewan
- Chris Selness – Crown Ventures Fund
- Mona Taylor – Trade Commission, International Trade Centre
- Angie Schmidt – Competitiveness Branch, Saskatchewan Industry and Resources
- Numerous other individuals did not meet with the Subcommittee as a whole but contributed valuable advice and direction to the members and the resource team.

WHAT THE SUBCOMMITTEE HEARD

- There are serious issues facing rural Saskatchewan business development:
  - capitalization (i.e., venture and working capital);
  - risk mitigation (i.e., inadequate preparation for downturns, particularly in the non-primary agricultural sectors);
  - resistance to large livestock operations in rural Saskatchewan;
  - management (i.e., skills needed to carry the business forward, including governance and responsibilities of local boards);
  - efficiency/economies of size (i.e., seeking professional help when necessary);
  - infrastructure (i.e., both traditional infrastructure such as roads, railways, and irrigation, and non-traditional infrastructure such as traceability of cattle, government regulations on homeland security, food safety, mitigating bio-hazards); and
  - export market orientation (i.e., understanding the vulnerability with respect to accessing the global marketplace, such as border closures, exchange rates and international due diligence).

- There needs to be a greater emphasis on training community people on the roles and responsibilities of Board members (i.e., governance); many Board members focus on operational issues instead of setting strategic directions for their projects.

- The Subcommittee should focus on businesses in all phases of maturity, not just start-ups. Expanding mature businesses results in the most successful economic development.

- There is a need to identify and develop opportunities for partnerships between the private sector and First Nations.

- The biggest business development gaps are in financing (especially in the $75,000-$500,000 range), education on various financing options (to address confusion about what venture capital is used for), and management issues.

- There is often a lack of succession planning; young entrepreneurs don't have adequate start-up and working capital; lack of knowledge of service providers, and service providers are often unaware of business concerns until it's too late; lack of mechanisms to link the labour force with employment opportunities; lack of positive attitude towards regional business environment; and lack of "proper" business planning.

- Money is not flowing to investments, not because money is not available but because of the weakness of management to back the projects. Lack of experience or expertise is the number one issue in the failure of projects.

- Saskatchewan lacks a developed financial service or investment community; few companies are financed using venture capital or public funding. Project proponents do not have the experienced people to put these types of deals together. Second, the economic infrastructure is not well developed where experienced people are available. And third, there is a need for centrally located resource centres to help connect the expertise and capital with projects.

- There is also a need for patient capital. Most traditional venture capitalists are looking for returns in excess of 15 percent and to be out of the investment in five years. Many businesses in rural Saskatchewan cannot make these kinds of payments.

- Interrelated funds including Crown Capital Partners, Prairie Ventures, Crown Ventures and Saskatchewan Government Growth Fund are the closest to patient capital in Saskatchewan. Some of them manage labour sponsored funds. Usually these kinds of investors want to be out of an investment in eight years.

- There were important changes made to the rules of the Saskatchewan Securities Commission in June 2003: communities can now raise as much capital as they want from any source and then file the Offering of Memorandum after they have raised the capital. This a positive move by the Securities Commission because it is now less expensive to raise capital than under the old system. A number of communities are now raising capital under the new rule. All provincial jurisdictions are also now regulated under one set of rules.

- Resource centres are not effective without management expertise. The resource centres should hire people who have the business knowledge and experience to provide effective advice.

- Mentorship programs are important. Use mentors who understand business.

- The regulatory approval process needs to be addressed. Two aspects to the problem:
  i) Environmental – It is time consuming and expensive to go through the regulatory hurdles now in place.
  ii) Certification Process – Allow certifying groups or individuals to tackle building and environmental issues for intensive livestock operations (ILOs); and similarly for processing and manufacturing facilities in rural Saskatchewan.

- There should be a centralized approach or set of standards that all rural municipalities should follow in economic development.

- The website of the Canada-Saskatchewan Business Service Centre provides access to over 1,200 documents on federal and provincial government programs and services available to the business community.

- The following elements are needed to begin a community project:
  - Leadership/vision
  - Regional support
  - A reason why the project should be located in the area
  - Financing
  - A business-oriented Board
  - Mentorship in the planning group
  - Access to the professional sector (e.g., legal, accounting, business consultants, governance)
  - Experts at the community meetings to talk with the investors

- Education for the Board members and shareholders
- Qualified management (though difficult to find in rural Saskatchewan)
- Risk mitigating tools, such as new product lines to mitigate risk of market volatility with existing product lines
- Financial and risk management consultants

- Other challenges for community project development include:
  - Freight (transportation)
  - Accessing raw products
  - Obtaining financial support from local financial institutions (especially going forward, because of BSE and less demand for products)
  - Short duration of venture capital investment (which often makes long-term debt instruments preferable)

- Support business mentorship for entrepreneurs, as this would be an asset at the beginning stages. Recommend using people who have planned a project previously and also using business people to be mentors

- Liquidity is a serious issue for investors in community projects.

- PST on building materials and equipment impacts on a company's cash flow during start-up. They would like to see a reverse mechanism where the PST payment is delayed for a couple of years until the company has a higher probability of cash available to pay.

- Rural communities have a lot of desirable qualities. The challenge is how to create jobs, especially in value-added industries such as manufacturing and food processing. Rural Saskatchewan could be competitive in certain kinds of manufacturing, but lacks a good North/South transportation corridor to the US market.

- Each community has different opportunities and each has to find out what its assets are. Development will occur on the local level based on a community's unique assets.

- The three M's of success for entrepreneurs is to understand the importance of money, management and markets before committing to a business endeavour.

- The rural Great Plains through the heartland of North America has faced significant challenges and decline – but there are pockets of success.

- You're not going to change the economics and it's not necessary to determine opportunities or growth areas. Government should enable the business community, provide a competitive business environment, and let entrepreneurs pick the opportunities. Government's role is to encourage and not to pick winners.

- Focus on the entrepreneurial and small businesses. Give them the opportunity to succeed.

RESEARCH FINDINGS

The Business Development Subcommittee commissioned a research project to provide background information on the state of business in rural Saskatchewan. Doug Elliott, publisher of Sask Trends Monitor, produced a report entitled: *Rural Businesses in Saskatchewan*. (The full report is available from the ACRE website at **www.agr.gov.sk.ca/acre**)

The key message from the report is that entrepreneurship is alive and well in rural Saskatchewan, demonstrated by a large and growing business community. Furthermore, entrepreneurship in rural Saskatchewan appears to grow more prevalent the further away a community is from large urban influences.

This is important information for policy makers because it identifies a solid existing business base that can be nurtured to seize the opportunities that come available, particularly on the local level, which is the best mechanism to develop the rural economy.

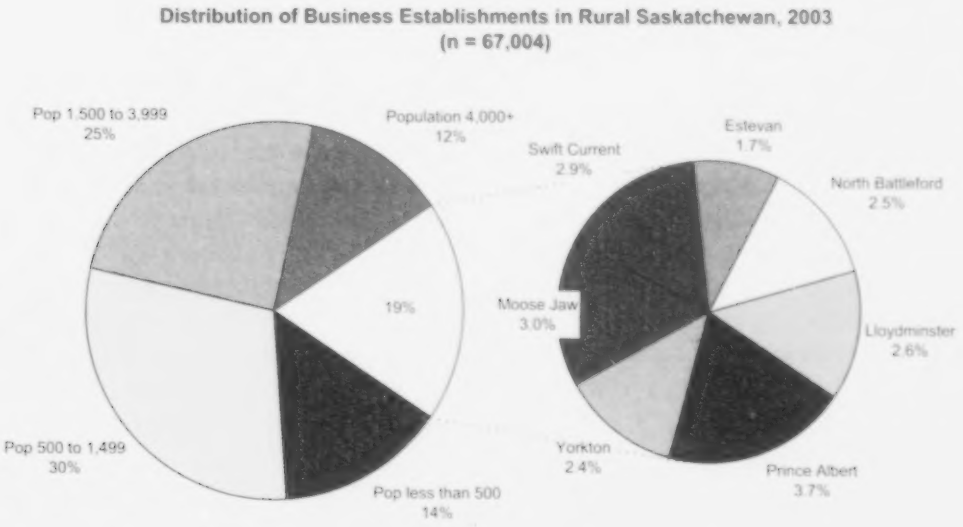
Table 1: Number of Business Establishments in Saskatchewan

		Saskatchewan		Rural Sask*		Percent rural	
		1998	2003	1998	2003	1998	2003
All Businesses		84,767	97,521	59,700	67,004	70%	69%
Employers only	Under 5 employees	24,936	23,191	17,191	15,641	69%	67%
	5 to 9	7,633	7,398	4,468	4,234	59%	57%
	10 to 19	4,848	4,850	2,668	2,477	55%	51%
	20 to 49	2,607	3,037	1,275	1,380	49%	45%
	50 to 99	647	916	297	389	46%	42%
	100 to 199	336	378	152	158	45%	42%
	200 or more	212	290	61	118	29%	41%
	Total	41,219	40,060	26,112	24,397	63%	61%

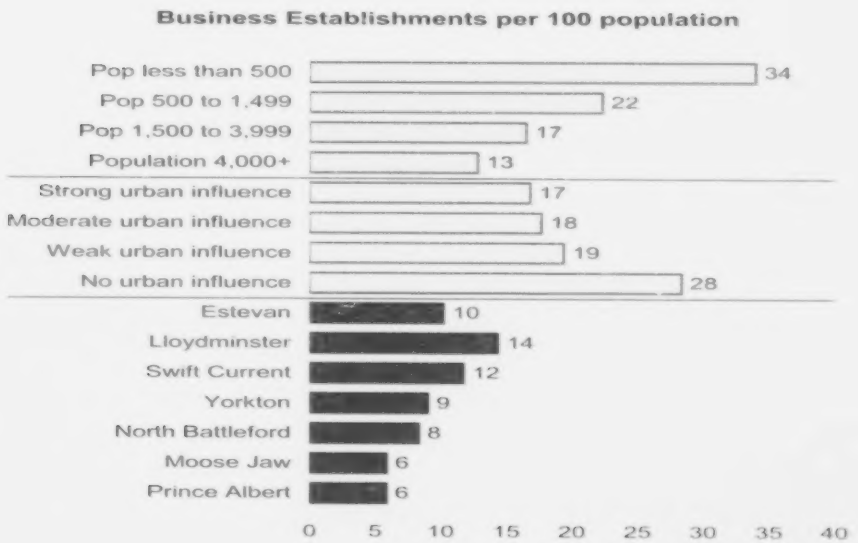
* excluding Regina, Saskatoon, their surrounding metropolitan areas, and the Far North

Approximately 70 percent of the businesses in Saskatchewan are located in rural areas and, between 1998 and 2003, the number of rural businesses increased by 12.2 percent from 59,700 establishments to 67,004.

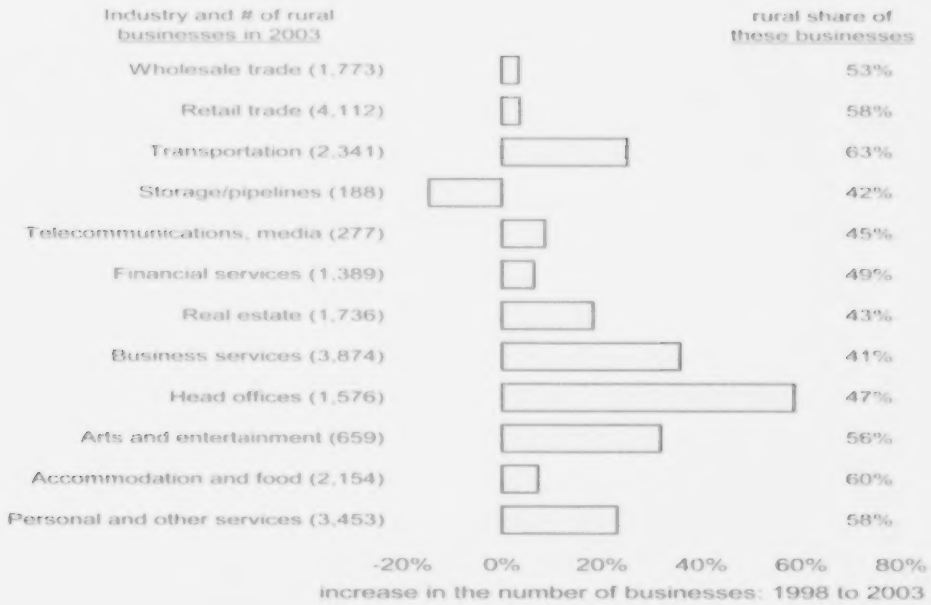
The data, as demonstrated in the following pie chart, shows that rural businesses are not primarily located in the larger cities in rural Saskatchewan, such as Swift Current, North Battleford and Moose Jaw.



Rather, it appears that the further away a community is from the larger cities, the more prevalent the small business community.



While these rural businesses span an entire range of goods and services, it is the growth of "head offices" in rural Saskatchewan that provides a key indicator of entrepreneurship and forms a viable base for building the economy.



This information reinforces the importance of the advice that the Subcommittee consistently heard during the consultation process: the need to focus on entrepreneurial and small businesses.

The Subcommittee was also told: "You're not going to change the economics and it's not necessary for governments or agencies to determine opportunities or growth areas. Government should enable the business community, provide a competitive business environment, and let entrepreneurs pick the opportunities. Government's role is to encourage and not to pick winners."

The surprisingly large number of business establishments in rural Saskatchewan, even if many of them are very small, means that there is a strong base and probably many entrepreneurs that would seize the opportunities to expand and grow – if they had access to the basic tools required to build confidence in their ability to succeed.

As a result, the Subcommittee focused on the tools that entrepreneurs and small business need: improving programs and services and their delivery agents, developing multiple levels of financing aimed particularly at rural Saskatchewan business needs, and building the management expertise required to lead rural development.

RECOMMENDATIONS – RATIONALE AND ANALYSIS

1. Rationalization of Rural Economic Development Programs and Delivery System

ACRE has identified that there are too many different economic development programs and services being offered from the departments and agencies across all three levels of government. Combined with the lack of coordination and consistency in how these programs and services are delivered, they have become an ineffective and wasteful use of scarce resources that could otherwise play a vital role in encouraging economic development in rural Saskatchewan.

ACRE recommends that the Government of Saskatchewan work with the Government of Canada, and with municipal governments in Saskatchewan, to create a Task Force that will:

a) **examine the programs and services offered for rural economic development from the three levels of government with the aim of reducing the number and improving the effectiveness of those programs and services; and**
b) **examine the rural economic development service delivery system with the aim of eliminating the overlapping mandates and jurisdictions and of improving the effectiveness of that delivery system.**

Rationale:

- One database indicates more than 1,200 business-related programs and services are available from governments (federal, provincial, and municipal) and NGOs (non-governmental organizations). Many different departments from each of the different levels of government and the NGOs are independently creating programs and services to enhance economic development.

- There are also multiple delivery agents for these programs. For example, some efforts to convene meetings for a small regional centre have resulted in invitations to more than a dozen different delivery agents from the three levels of government and local NGOs.

- Despite the volume of programs and services, and different delivery agents, there is still a serious lack of awareness by users of what is available.

- Most programs are not sufficiently funded to provide for any meaningful economic development.

- There is clearly an overlap in program development and service delivery, and confusion around the boundaries and jurisdiction of different programs. Only a powerful commitment to change, by all three levels of government, will bring order to this chaos.

2. Saskatchewan Equity Investment Tax Deferral Program

ACRE has identified that building a vibrant rural economy will require extraordinary levels of investment over the next several decades. (The Elliott-Perlich report to ACRE in 2001 identified total incremental capital investment required over 20 years to be $40 billion). This kind of funding – for large scale current opportunities such as feedlot development, hog barns, processing; and important potential future development such as wind farms, fractionation plants, bio-energy sources, and agro-forestry – is simply not available under the current suite of investment funding in Saskatchewan.

ACRE recommends that the Government of Saskatchewan work with the Government of Canada to develop a substantial source of equity funding by implementing a Saskatchewan Equity Investment Tax Deferral Program, which will make any Saskatchewan resident or corporation who wishes to defer taxes eligible to invest in our province's rural economic development.

Rationale:

- The initial investigation for this recommendation came from a discussion about the amount of farm land in Saskatchewan that would be changing hands over the next decade and how most of that capital would likely end up leaving the province. The question was whether some kind of tax incentive program could be put in place to give retiring farmers the option of investing in a fund that would help economic development in rural Saskatchewan.

- After preliminary consultations, it became apparent that a tax deferral program focused only on farm-land sale proceeds would not provide much of an investment fund, given the $500,000 capital gains exemption and the size of most of the farms that would be sold in the next decade. The Subcommittee subsequently decided to expand the proposal to include any Saskatchewan resident or corporation that wished to defer taxes from any source.

- As the Subcommittee developed the concept, it came to our attention that the current Income Tax Act (Section 44.1) allows an individual shareholder (other than a trust) to defer capital gains realized on the disposition of common shares of an eligible small business corporation (that were originally issued to the investor by the corporation) if the proceeds are reinvested in common shares of eligible small business corporations. When this deferral initiative was implemented in 2001, there was a $2 million cap on the amount of funds that could be deferred in any one transaction. Since then the cap has been lifted.

- **Our recommendation takes the principle inherent in the existing tax deferral initiative, significantly expands the potential sources of funding (providing a broader range of tax deferrals), and suggests that the money be put into a fund rather than into another small business enterprise (presumably reducing some of the risk in investing in a single business).**

- No "new" Fund would actually be created, but existing investment and venture capital companies could be eligible to administer the Saskatchewan Equity Investment Tax Deferral Program proceeds – if they met specific criteria. Those criteria would need to be developed in a manner that would limit the number of eligible administrators to two or three, initially at least, to ensure that multiple, very large ($150 million) projects could be handled.

  The companies that were successful in their application to administer the proceeds could in turn use independent investment consultants or brokers to promote the program.

- No government guarantee or tax credit benefit would be involved, so the risk involved in the investment would be the responsibility of the individual making the investment to defer taxes, as is the case for many RRSPs, for example. Companies that succeed in their application to administer the proceeds would clearly need to have an impeccable track record of financial management to provide confidence to investors.

  While there are no government incentives for the investor other than the tax deferral, government(s) could target specific sectors or projects to make those investments more attractive to the fund administrators. For example, Saskatchewan's feedlot industry has historically fed out about 20 to 25 percent of our production but has never been able to develop the momentum to grow beyond that. The government might, after consultation with the industry, develop a plan to significantly expand our livestock feeding capacity. Such a plan may or may not include incentives, but would likely include a package that would make it more attractive for funds to invest in the sector.

- Targeted investors include:
  - Retiring farmers (recapture of depreciation, or land sale – over the $500,000 capital gains exemption)
  - Small business sale (over the $500,000 capital gains exemption)
  - Farmers and small business owners (investment of profits)
  - Credit Union / Bank portfolios
  - Individuals with disposable capital
  - Institutional capital

3. Creating an "Angel" Investor Network

ACRE has identified that certain jurisdictions have created successful networks that bring "angel" investors and entrepreneurs together, resulting in another funding option to develop projects and increase economic development.

ACRE recommends that the Government of Saskatchewan encourage and provide support to the Saskatchewan's economic development associations to examine the potential of an "angel" investment network to increase equity funding available to rural Saskatchewan businesses.

Rationale:

- There are angel investor networks operating in Alberta, British Columbia and California that could provide a model for a Saskatchewan initiative.

- Angel investors typically operate through a broker, or through investment clubs or venture capital funds already in operation.

- Generally, angel investors are focused in specific sectors, such as oil and gas, information technology, or manufacturing – but others have been orientated towards innovative ideas.

- Efforts have been made in Saskatchewan to look at angel investor networks. The Saskatoon and Regina REDAs have had discussions with both private and quasi-public groups. To our knowledge nothing has been formalized, though there continues to be interest.

4. Mentorship / Governance

ACRE has identified that entrepreneurs and community project proponents need better access to advice from their peers and a better understanding of the governance skills required for their businesses and projects to succeed.

ACRE recommends that the Government of Saskatchewan build on existing business groups, programs, and resources (e.g., Chambers of Commerce, Women Entrepreneurs, Saskatchewan Council for Community Development, etc.) to create an effective network of leaders and mentors. As well, resources need to be provided that will ensure that community boards and entrepreneurs have access to the information necessary to implement effective governance systems.

Rationale:

- Communities often have very good ideas and extraordinary enthusiasm for economic development projects; however, these initiatives often fail once in operation because of the lack of governance skills in the management group of the projects.

- There are mentorship models already in operation across Western Canada, including Women's Entrepreneurs, InnoCentre in Alberta, VanCity Capital program and the Alberta Added Value Corporation. Examples of qualified mentors would include experienced and/or retired business people, lawyers, accountants, managerial specialists, marketing experts, etc.

- Governance principles and skills using a Board of Director concept for community-based projects could include individually owned businesses.

- Use of the Canada-Saskatchewan Business Service Centre and education programs such as entrepreneurial courses in high schools, Board governance seminars, etc.

5. Liquidity of Community and Business Investments

ACRE has identified that a significant deterrent to the raising of funds for community projects and many businesses in rural Saskatchewan is the fact that the shares for these kinds of investments are not easily converted into cash.

ACRE recommends that the Government of Saskatchewan facilitate the initiatives necessary to improve the liquidity of investments in community projects and businesses in rural Saskatchewan, including:

a) **mandating the Saskatchewan Financial Securities Commission to clarify its policies and encouraging the process by which community projects and businesses can apply to become 'reporting issuers' so that their shares can be more readily traded;**
b) **working with the Saskatchewan investment community to establish a visible, electronic, over-the-counter market on which the shares of Saskatchewan community projects and businesses can be traded;**
c) **encouraging community projects and businesses to make the internal management and reporting commitments that will allow them to become 'reporting issuers' as soon as possible so that their shares can be more readily traded; and**
d) **providing or sponsoring educational seminars and programs to assist management and shareholders of Saskatchewan community projects and businesses to better understand the benefits and costs of reporting issuer status, and to develop and maintain cost effective internal compliance systems.**

Rationale:

- Local investment is an important source of funding for community projects and businesses.

- Much of that important source of funding has not been available because investors must be prepared to commit those funds to the project or business for an extended or indefinite period of time.

- If there was an easy or quick way for investors to get their money out of the project, many more individuals and companies would be prepared to invest in those projects.

- ACRE commends the way that the Saskatchewan Financial Securities Commission has opened up the opportunity for community projects or small businesses to turn investments into shares that can be traded.

- Our recommendation asks that more work be done to make more community projects and small businesses aware of this opportunity and, more importantly, that a viable over-the-counter market be created in Saskatchewan so that community project and business shares can be traded.

6. Taxation

ACRE has identified that some adjustments to taxation in Saskatchewan are necessary to allow for the flow of new capital investment into Saskatchewan's manufacturing and processing sector.

ACRE recommends that the Government of Saskatchewan:

a) replace the current tax credit program on capital purchases used for manufacturing and processing with a PST exemption program; and

b) develop and make public a plan for:

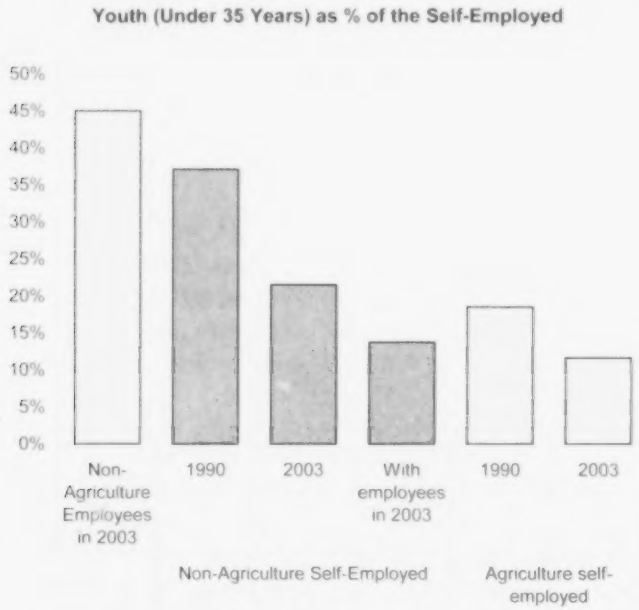
- **the systematic elimination of the Corporate Capital Tax, and**
- **the staged reduction of the Corporate Income Tax to ensure Saskatchewan's businesses can stay competitive with those in other provinces.**

Rationale:

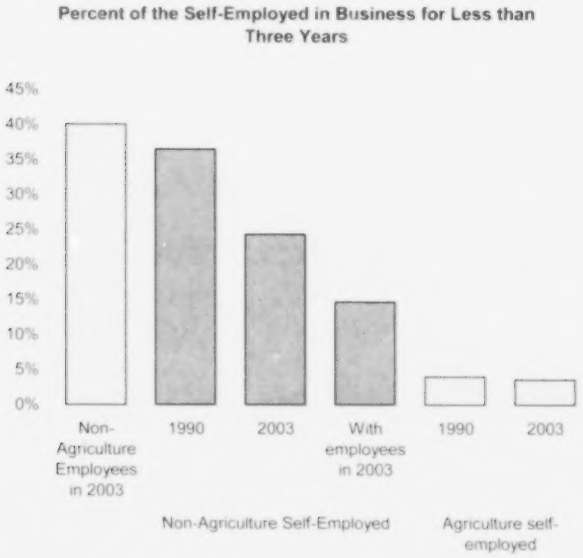
In the research data provided by Doug Elliott of Sask Trends Monitoring, three pieces were particularly worrisome:

a) While the number of business establishments in Saskatchewan is rising, the number of employers is declining over time, for both the province as a whole and for rural Saskatchewan.

b) The need to address the lack of opportunity for youth is a reality.



c) The low percentage of self-employed people who have been in business for less than three years is good news on one hand, since it suggests that existing business are surviving the start-up period and becoming established; however, it also indicates that new entrepreneurs are not entering business community.



This information, and the repeated comments from parties to the Subcommittee during the consultation process, point to the necessity for a favourable business climate. The Subcommittee sees competitive tax rates as an essential piece in providing that environment:

Provincial Sales Tax (PST) on capital investments

- The current system requires companies to pay the PST up front, raising the investment requirements for the project. The tax credit now in place only becomes effective when the company pays income tax, which could be years later.
- The tax requirement should be changed to an immediate exemption, which reduces the capital outlay and will encourage more development.

Corporate Capital Tax

- This tax is a levy assessed on a corporation's capital, including debt and equity less various credits and deductions. It is a very complicated system.
- Some provinces (Ontario and B.C.) have eliminated the Corporate Capital Tax or have developed a plan for a staged reduction.
- Saskatchewan has already taken steps to reduce the impact of the Corporate Capital Tax – the first $10 million in taxable capital is now deductible. This is the most generous exemption among the provinces that apply such a tax.
- However, this tax still limits investment by larger corporations in major projects. It also creates an incentive for corporations to devise strategies to avoid paying the tax.
- ACRE is calling for the systematic elimination of the Corporate Capital Tax in order to send the right signals to the investment market.

Corporate Income Tax

- While Saskatchewan has the highest Corporate Income Tax in Canada, rebates for manufacturers and processors make that sector competitive. Proposed reductions for small businesses (businesses with less than $300,000 in gross income) will increase our competitiveness for smaller enterprises.
- For larger businesses, Saskatchewan has the highest Corporate Income Tax in Canada at 17 percent. Both Alberta and Manitoba have announced their intention to reduce Corporate Income Tax when they have the financial ability to do so.
- Our recommendation is an important message to the Government of Saskatchewan that we must stay competitive.

7. Simplifying the Regulatory Process

ACRE has identified that the regulatory processes to receive approval for new business projects in rural Saskatchewan (from the three levels of government) are far too uncoordinated, time-consuming, burdensome and unpredictable to allow effective economic development to occur.

ACRE recommends that the Government of Saskatchewan simplify and develop an integrated approach (preferably a one-window contact) for the business development approval process from project conception through the start-up of the enterprise.

Rationale:

- While concerns and questions about the regulatory approval process have been raised many times in the past, the Subcommittee continues to hear about real problems encountered by project proponents.

- Our Subcommittee is encouraged by the efforts that the Saskatchewan Association of Rural Municipalities is taking through their "Clearing the Path" initiative to address regulatory barriers to development.

- The Subcommittee clearly accepts the need for some level of regulation and effective approval process, but feels that it is essential for all Departments in the Government of Saskatchewan to take this issue seriously and put forward proposals to address the concerns of proponents.

8. Affordable Insurance

ACRE has identified that some businesses and business sectors are unable to obtain affordable business and/or liability insurance.

ACRE recommends that the Government of Saskatchewan mandate Saskatchewan Government Insurance to aggressively develop the partnerships and the policies that will allow affordable insurance packages to meet the needs of Saskatchewan's rural businesses.

Rationale:

- High premiums for farmed-based agri-tourism and eco-tourism businesses (identified in previous ACRE recommendations in July 2003)

- Need to consider group insurance programs, such as insurance programs based on an association of members.

- Broaden the insurance policies to include more farm-based businesses such as value-added processing, specialty crops (such as herbs and spices) and livestock.

- Include First Nations and Métis businesses such as aboriginal tourism.

9. Support for the Proposed "Saskatchewan Works Fund"

ACRE has identified that a significant proportion of potential rural and agricultural development, whether start-up or expansion projects, offer excellent investment opportunities but have certain characteristics and/or requirements that do not fit existing funding mechanisms. These factors include, among others, the need for patient capital sources that are prepared to accept 8 to 12

percent returns on their investment. Rather, most venture capital funds require 25 to 35 percent returns in business plans before they will participate and want their money back in five years.

ACRE recommends that the Government of Saskatchewan provide seed money and facilitate the implementation of the "Saskatchewan Works Fund", as proposed by Saskatchewan Agrivision Corporation (SAC) and the Saskatchewan Federation of Labour, because this proposal recognizes the needs of rural businesses and will provide a source of capital investment for rural economic development that is not being met by other funding mechanisms.

Rationale:

- Saskatchewan Agrivision Corporation has spent a lot of time researching the needs of rural and agricultural businesses. Their proposal, the "Saskatchewan Works Fund," is specifically tailored for the kinds of projects that might not normally be attractive to traditional venture capital funds, and which need some additional capital funding to provide an acceptable package for banks and credit unions.

  The Saskatchewan Works Fund is based on a very successful model, the Solidarity Fund in Quebec, which reports rural and agribusiness loans to be one of its better portfolios – despite relatively lower returns – due to fewer write-offs and a low investment loss ratio.

- The Saskatchewan Works Fund recognizes:
  - the need for "patient" capital which will stay in place for at least eight or ten years;
  - the investment opportunity in projects that will return 8 to 12 percent and are smaller than $1 million; and
  - the importance of community-based projects in the future of rural Saskatchewan.

  Finally, the Saskatchewan Agrivision Corporation proposal recognizes the need to develop and nurture the ideas and the entrepreneurs that will drive growth in rural Saskatchewan. The Saskatchewan Works Fund concept includes a business incubator to facilitate the commercialization of new ideas and products, including access to professional assistance (accountants, legal, marketing, and management consultants) for project proponents.